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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Market Structure Branch**

**RESOLUTION T-16973
December 15, 2005**

R E S O L U T I O N

Resolution T-16973. SBC California (U-1001-C). Request for Approval of Price Cap Mechanism, in Compliance with Decision 89-10-031, and Corresponding Adjustments to Surcharges which will be Effective on January 1, 2006.

By Advice Letter No. 27434 Filed on October 3, 2005.

Summary

This Resolution authorizes SBC California (SBC) to decrease its annual revenues by \$1.205 million effective January 1, 2006. A summary of the price cap filing calculation of the adopted revenue adjustment is shown in Appendix A. A summary of the adopted surcredit is shown in Appendix B.

SBC requested an annual revenue decrease of \$1.205 million due to the impacts of one-time adjustments caused by the Gain on Sale of Land, Intervenor Compensation and Tier II Payments. Because this year's revenue decrease is smaller than the previous year, the effect of SBC's proposal is that customers will pay more for service in 2006 than in 2005. The impact from SBC's proposal on customer bills and the price changes adopted in this resolution are shown in Appendix B to this resolution.

Background

New Regulatory Framework

In Decision (D.) 89-10-031 the Commission adopted an incentive-based regulatory framework (called the new regulatory framework or "NRF") for Pacific (now known as SBC California) and GTE California Incorporated/GTEC (now known as Verizon

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California Incorporated). Prices and rate caps for services would be indexed annually according to an inflation factor, the Gross National Product Price Index (GNP-PI), and reduced by a productivity adjustment.

The indexing formula also allowed rate adjustments for a limited category of exogenous cost changes that were beyond the control of utility management, called Z-factors, whose effects are not reflected in the GNP-PI. Only specific types of costs were considered Z-factors: changes in federal and state tax laws to the extent they affect the local exchange carriers disproportionately, mandated jurisdictional separations changes, and changes to intraLATA toll pooling arrangements or accounting procedures adopted by this Commission.

The Commission did not authorize Z-factor treatment for all unforeseen or exogenous factors. Normal costs of doing business (including costs of complying with existing regulatory requirements) or general economic conditions would not be afforded Z-factor treatment.

The Price Cap indexing formula adopted in D.89-10-031 has been modified. In D.94-06-011, the Commission ordered Pacific to replace the GNP-PI with the Gross Domestic Product Price Index (GDP-PI). In D.94-09-065, the Commission authorized Pacific and GTEC to implement the 1995 price cap rate adjustments through the billing surcharge/surcredit mechanism.

In the second triennial NRF review, the Commission issued D.95-12-052 whereby inflation and productivity factor elements (GDP-PI minus productivity factor) of the indexing mechanism were suspended.

In the third triennial NRF review, the Commission issued D.98-10-026. The order continues the suspension of the GDP-PI minus productivity factor formula, suspended the sharing mechanism, permanently eliminates the depreciation review, continues rate caps on residential services by keeping all rate caps and floors, and replaces Z-factors with limited exogenous (LE) factors.

LE cost recovery was confined to recovery for cost increase or decreases resulting from: (1) items mandated by the Commission and (2) changes in total intrastate recovery resulting from changes between federal and state jurisdiction. Recovery of Commission mandated cost changes must be authorized in the underlying Commission Decision.

The Commission opened the fourth triennial review of NRF for SBC and Verizon on September 6, 2001 via a combined Order Instituting Rulemaking R.01-09-001 and Order Instituting Investigation I.01-09-002. Phase 2 of the review focused on a regulatory audit of SBC that addressed accounting, cost allocation, affiliate transactions and Yellow Pages directory ratemaking issues.

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SBC's Price Cap Filing

On October 3, 2005, SBC filed its 2006 price cap Advice Letter No.27434 filing to comply with D.89-10-031. In this filing, SBC proposed to include the following adjustments to its revenues:

- **Gain on Sale of Land** **-\$854,000**
This is a one-time adjustment to reflect the gains on sale of land.
- **Intervenor Compensation** **\$316,000**
This is a one-time adjustment to reflect recovery for participation or intervention in Commission Proceedings.
- **Tier II Payments (OSS Performance Incentives)** **-\$667,000**
This is a one-time adjustment to reflect payments to general ratepayers, including interest, as adopted by the Commission in D.02-03-023.
- **Total Revenue Adjustment** **-\$1,205,000**

As shown above, the net result of the One-Time Other Adjustments proposed by SBC is a decrease of \$1.205 million in Total Revenues.

To refund this revenue to its customers, SBC requests authority to modify:

1. The current surcredit to be applied to all IntraLATA Exchange and Private Line Service with the exception of Category III Services and the taxes and surcharges currently listed in the tariffs from -1.526% to -1.326%.
2. The surcredit to be applied to all IntraLATA Toll Services currently listed in the tariffs from -1.528% to -1.328%.
3. The surcredit to be applied to all IntraLATA Access Services currently listed in the tariffs from -1.532% to -1.332%.

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Notice/Protests

SBC states that a copy of the advice letter and related tariff sheets were mailed to competing and adjacent utilities and/or other utilities, and interested parties, as requested. Notice of Advice Letter No.27434 was published in the Commission Daily Calendar on October 7, 2005. No protests to this advice letter were filed.

Discussion

Gain on Sale of Land

Decision 94-06-011 adopted the settlement agreement between SBC and the Division of Ratepayer Advocates in Application 92-05-004 as it relates to gain on sale of land. The settlement agreement, included as Appendix B to the Decision, ordered SBC to reflect the effects of the approved settlement agreements in its price cap filing.

The Telecommunications Division recommends the adoption of SBC's request to refund to ratepayers through a one-time adjustment of -\$854,000 for the gain on sale of land.

Intervenor Compensation Recovery

Decision 96-04-063 confirmed that SBC (formerly Pacific) was entitled to recover intervenor compensation, but concluded that SBC's rates shall remain subject to refund or adjustment pending completion of an OII. In Resolution T-16265, the Commission agreed that data provided by SBC appeared to demonstrate that there was no recovery of intervenor compensation in the start-up revenue period. Therefore, it would be equitable to allow SBC to recover intervenor compensation, in accordance with Decision 96-04-063, where the amount shall remain subject to refund or adjustment when the OII is terminated.

During the period of September 2004 through August 2005, SBC paid \$418,000 (including interest) for intervenor compensation awarded by the Commission. After applying the applicable intrastate separations factor of 75.576%, SBC request recovery of \$316,000. The Telecommunications Division (TD) recommends the adoption of SBC's request to recover intervenor compensation through a one-time adjustment of \$316,000.

Tier II Payments

Decision 02-03-023 established monetary performance incentives for an incumbent local exchange carrier (LEC) to give competitors equitable access to the LEC's Operations Support Systems (OSS) infrastructure. Under the Commission's incentive plan, there are two types of payments for OSS performance levels that fall below Commission approved performance standards: Tier I which is generally paid to individual

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Competitive Local Exchange Carriers and Tier II payments which are paid to general ratepayers.

Tier II payments are calculated throughout the year and placed monthly into an interest bearing escrow account and remitted to ratepayers in the subsequent year in the form of a billing surcredit. A 2006 Tier II payment in the amount of -\$667,000 for 2005 had been developed consistent with the methodology adopted by the Commission in D.02-03-023. TD recommends the adoption of SBC's request to remit to ratepayers through the one-time adjustment of -\$667,000 for the Tier II payments.

Gross Domestic Product Price Index:

During the 2003 price cap filing, the CPUC requested that SBC include its inflation factor, the Gross Domestic Product Price Index (GDP-PI), as part of its workpapers. ORA noted that the GDP-PI is a necessary component to update price floors. SBC provided the GDP-PI data as part of its 2005 price cap filing.

Price Floor Update:

In the 2003 price cap resolution T-16717, the CPUC directed SBC to revise its price floor update format in subsequent price cap filings and include the following information for each of the services:

- | | |
|----------------------------------|--|
| • The line number | • Current price floor |
| • The cost basis | • Proposed price floor |
| • Whether imputation is required | • Difference between current average unit revenue and the proposal price floor |
| • Current average unit revenue | |

SBC provided the Price Floor update in the format mentioned above and adopted in the 2003 price cap resolution T-16717. TD has reviewed the price floor format and believes that the format complies with Resolution T-16717.

As with the previous year, in reviewing SBC's tariffed prices against the price floors, TD observed that SBC had services in which the tariffed price was below the price floor. SBC explained that these services are subject to the Uniform Regulatory Framework (URF) proceeding (R.05-04-005) which will assess and revise the regulation of all telecommunications utilities in California except for small incumbent local exchange carriers (ILECs). In that proceeding, SBC recommended that the Commission eliminate price floors for all residential and business retail services. Since this is a current issue under review in the URF proceeding, we will defer requiring immediate price floor adjustments at this time.

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Impact of Adopted Changes

The \$1.205 million revenue reduction adopted here for 2006 is lower than the reduction adopted in 2005. Accordingly, the surcredit on customer bills will be lower as shown in Appendix B of this resolution. The effect of the lower surcredit is that customers will pay slightly more for telephone service in 2006 than they paid in 2005.

Telecommunication Division Recommendations:

The Telecommunications Division concludes that SBC's Advice Letter No.27434 meets the requirements set forth in the Commission Orders and G.O. 96-A and recommends that the Commission approve this filing by resolution.

Commission approval is based on the specifics of the Advice Letter and the associated contract, and does not establish a precedent for the contents of future filings or for Commission approval of similar requests.

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code Section 311 (g) (2), the otherwise applicable 30-day period for public review and comment is being waived.

Findings

1. On October 3, 2005, SBC filed its price cap filing A.L. No.27434, and requests the following one-time adjustments in its revenues:

• Gain on Sale of Land	-\$854,000
• Intervenor Compensation	\$316,000
• Tier II Payments	-\$667,000
• Total Revenue Adjustment	<hr/> -\$1,205,000

2. SBC requests to adjust the \$1.205 million decrease in revenue requirements by applying:
 - a) A surcredit of -1.326% applied to IntraLATA Exchange and Private Line Service with the exceptions of Category III Services, access charges listed in Schedule No. 1, and surcharges currently listed in Pacific's tariffs.
 - b) A surcredit of -1.328% applied to intraLATA toll (Schedule No. A2)
 - c) A surcredit of -1.332% applied to access services (Schedule No. A2)

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3. We find reasonable and adopt SBC's request to refund the ratepayers through a one-time adjustment of -\$854,000 for the gain on sale of land.
4. We find reasonable and adopt SBC's request to recover intervenor compensation through a one-time adjustment in the amount of \$316,000.
5. We find reasonable and adopt SBC's request to remit to ratepayers through the one-time adjustment of -\$667,000 for the Tier II payments.
6. No protest to this Advice Letter has been received.
7. We adopt TD's recommendation to approve SBC's AL No.27434.

THEREFORE, IT IS ORDERED that:

1. SBC California shall decrease its 2006 annual revenues by the total proposed revenue adjustment of \$1.205 million through one-time adjustments as adopted herein and reflected in Appendix B.
2. SBC California shall implement billing surcharges/surcredits reflecting the revenue increase ordered in Ordering Paragraph 1, applied to a total billing base of \$3,930,984,000: a surcharge of -1.332% on intraLATA access services, a surcredit of -1.326% on intraLATA exchange and private line services and a surcredit of -1.328% on intraLATA toll services to become effective on January 1, 2006, subject to review and approval by the Telecommunications Division.
3. The revisions to SBC California's price floors filed in Advice Letter No.27434 are adopted and shall be implemented on January 1, 2006.

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This Resolution is effective today.

I hereby certify that the Public Utilities Commission adopted this Resolution at its regular meeting on December 15, 2005. The following Commissioners approved it:

STEVE LARSON
Executive Director

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APPENDIX A
Resolution T-16973
SBC California
2006 Price Cap Filing

One-Time Other Adjustments	SBC Proposed Revenue Impacts	Adopted Impacts
Gain on Sale of Land	-\$854,000	-\$854,000
Intervenor Compensation	\$316,000	\$316,000
Tier II Payments	-\$667,000	-\$667,000
Total	-\$1,205,000	-\$1,205,000

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APPENDIX B
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	Current Surcredit	SBC Proposed Surcredit	Adopted Surcredit
Local	-1.526%	-1.326%	-1.326%
Toll	-1.528%	-1.328%	-1.328%
Access	-1.532%	-1.332%	-1.332%